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*Series on General Agreement on Trade in Services: Part 16*

## Service Sector: Logistics Services

### Introduction

Logistics services have always been an element of supply chain management in global trade, however with the onset of computer technology and e-commerce this service sector has become increasingly important in terms of national economic development, participation in the global economy, and trade facilitation. It is also an important value-added service in the global production and marketing of goods. Impediments in the supply chain significantly raise the cost of doing business and affects critical economic sectors.

Efficient transport logistics is important to anyone who is involved in shipping goods and it is important to small and medium sized industries as well as the large national or multinational ones. According to the World Bank, total logistics costs (including packaging, storage, transport, inventories, administration and management) are estimated to reach up to 20 per cent of total production costs in developed countries, while freight costs alone can be up to 40 per cent of export values for certain landlocked developing countries. UNCTAD also estimated that freight costs as a share of import value is higher for developing countries at 8.8 per cent (in 2002; Asia 8.3 per cent, Africa 12.4 per cent and Latin America 10.0 per cent) compared with 5.7 per cent for developed countries. Logistics costs also typically account for up to 12-17 per cent of GDP.

### Economic Importance

Although it is difficult to ascertain precise numbers for this industry, in 2002 the US International Trade Commission estimated the global outsourced market for logistics at US\$130 billion. The largest estimate of this industry was from UNCTAD, which estimated the global value to be around US\$100 billion, with growth expectations.

At the national level, the US market was approximately US\$77 billion in 2003 while the European market was estimated at EUR 36.5 billion (almost 10 per cent of the global market). The available data for China shows wide discrepancies in the figures; one study done in 2003 values the market

at US\$3.8 billion in 2003 and another at US\$8.5 billion. Consolidated data for other regions are difficult to locate.

Regardless of the lack of precision these figures provide a good indication of the large economic value of this industry and its importance to the global economy.

### Services covered

#### Definition and Classification

Logistics does not have its own GATS services classification in the WTO Secretariat Sectoral Classification list W/120, however these services are classified as "Transport Services" (W/120 11) and "services auxiliary to all modes of transport" (11.H. a-d) with the corresponding United Nations Central Product Classification (UNCPC or CPC). This is because it is generally accepted that logistics is directly related to services such as container handling services, storage and warehouse services, freight transport agency services, information management, and other supporting and auxiliary services, including freight forwarding.

Logistics also does not appear as a discreet sector in most of the relevant national legislation; transport activities and services tend to be regulated in a modal fashion.

Despite the existing classification in the GATS, logistics has in fact a much broader definition. Thus, proposals have been made by some Members to improve the existing W/120 definitions. In particular TN/S/W/20 lays out a possible definition that is helpful for understanding operational aspects of logistics and the modes of transport which they underpin.

- 1) Core freight logistics services, which corresponds to the services auxiliary to all modes of transport (11.H. of W/120).
- 2) Related freight logistics services, which "are crucial to the efficient supply of integrated logistics services". It is noted that "the effective liberalisation of logistics services would require broad and meaningful liberalisation of these related freight logistics services."
  - \* Freight transport services including all transport modes (land maritime and air but noting the exclusion of air transport services from the GATS). Classification numbers are given for both W/120 and the UNCPC.
  - \* Other related logistics services, which include technical testing and analysis services, courier

services, agents, wholesale trade services and retailing services. Each of these have corresponding W/120 and UNCPC listings

- 3) Non-core freight logistics services, which relate to computer and related services, packaging and management consulting and related services. Noted in this third part is the proposal to accept accompanying additional commitments (Article XVIII).

## Modes of supply

### *How are Logistics services typically traded?*

Logistics services provide for the movement of goods within and across borders by ensuring passage on the mode of transport most appropriate (usually price/time determined). They would most frequently be traded as Mode 1 (cross-border supply) and Mode 3 (commercial presence). Mode 1 when shipping transactions are made across borders and Mode 3 when corporations open offices in foreign countries. Mode 4 (movement of natural persons) would also be relevant for corporations that require specific expertise at, for example, branch offices. Mode 2 would come into play when a local company uses the services of a foreign based operator.

## Regulatory issues

The number and type of regulations affecting logistics operators are numerous and can vary from country to country. Despite national regulatory differences, all governments have domestic measures, border controls (import and export) plus customs clearance measures. There are also numerous bilateral agreements and international conventions that must be followed depending upon the mode of transport for shipping goods.

Noted earlier, logistics services does not have a unique classification and any regulations affecting it are found in national regulatory bodies of the Members or international conventions for the appropriate mode of transport. Since Members do not have uniform classification systems, logistics would be classified and regulated according to the department or departments determined by each national government. The number of industries that a logistics provider would encounter when looking for regulations in another country is only limited by the mode of transport used for the movement or storage of goods.

## Common limitations

Using the classification categories of W/120 for logistics,

Members have made numerous commitments in the 4 sub-sectors, services auxiliary to all modes of transport (11.H). The greatest number of commitments are found in storage and warehouse services (11.H.b, CPC 742) with 45 out of 50 commitments (counting the EC 12 as one). The least committed are cargo-handling services (11.H.a, CPC 741) with only 27. This may be due to the close relationship between air cargo, which is excluded from GATS coverage under the Annex on Air Transport. Freight transport agency services (11.H.c, CPC 748) has 36 commitments and "other" (11.H.d, CPC 749) has 29.

The types of limitations found in the existing commitments tend to be either "None" or "Unbound". Nevertheless the partial commitments include: establishment of a juridical person (incorporation), foreign equity ceilings, investment screening, residency, joint ventures (including number and duration), nationality requirement, qualifications, duration of stay and training.

The few Additional Commitments in logistics relate to three areas of services supply. The first is the acceptance of electronic versions of trade administration documents. This reflects technological advancements in an industry that requires many different forms and documents to process goods as they move from origin to destination using one or more modes of transportation.

The second relates to the entitlement of service suppliers to supply freight logistics services auxiliary to all modes of transport, including freight, courier and distribution services (or a combination thereof), subject to measures (regulations) to prevent anti-competitive behaviour. The third is for the Member to ensure that various procedures and formalities would not be unnecessarily burdensome. These would include documentary requirements, customs clearance, customs inspections, and electronic processing. Members can put any Additional Commitments into their schedules so long as they conform to the GATS Article XVIII. In the proposal, "Logistics Services" (TN/S/W/20), Members have made a number of suggestions for using Additional Commitments as a way to "ensure effective market access and address sector-specific issues... (p 3)."

The main type of restrictions normally found in the schedules are: foreign equity ceilings when establishing commercial offices, investment screening, residency, incorporation, pre-establishment, joint-ventures, nationality, duration of stay, and training. In total there are only three Members that took an MFN exemption and each are justified by a lack of reciprocity.